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**OBSERVATION OF INDUSTRIAL PURCHASING DECISIONS ON SUPPLIER CHOICES FOR
LONG-TERM CONTRACTS IN NATURALISTIC SETTINGS**

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The purpose of this research was to learn at first hand how industry actually buys--especially the decision-making process involved in selecting suppliers to purchase items on long-term contracts. There is not much in literature that is helpful. Academic researchers have dealt with procurement on a theoretical plane and what is needed badly is some empirical verification.

The research was conducted in six different industrial organizations, located in the southeast of the United States. Indepth study on supplier selection process was carried out for three items with each company. Thus, a total of eighteen items was thoroughly investigated. A total of 62 persons involved in the purchase decision process from various departments of the companies were interviewed. An additional 43 purchasing agenets participated in the experience survey, consisting of a structured questionnaire focusing on factors contributing to adding a **new supplier**, dropping an existing supplier, or increasing or decreasing the supplier's share of business for a new contract period.

The majority of past investigations of industrial buyers have used static methodologies, examining what buyers say they do or what they say they have done. The triangulation technique used in this study, which combined segmented protocol analysis, direct observation, and unobtrusive method (document analysis), permitted examination of what buyers actually do in the real world buying situation. This should be considered as the greatest strength of the research findings of this study.

The purchase decision process on supplier choices seems to be a two step process: (1) Deciding on the number of suppliers to send an RFQ (Request for Quotation). (2) After receiving the quotes, selecting the supplier(s) to award contract(s) for the item to be purchased.

A. Supplier Selection for Sending an RFQ: (1) Buyers seek new potential sources actively when the number of suppliers on the bidders' list is less than three. (2) Active search is terminated when the number of suppliers on the bidders' list is greater than three and the performance of existing sources is satisfactory. (3) Criteria to **add** potential **suppliers** on the bidders' **list** are toughened when the number of supplier on the bidders' list is greater than six. These criteria may be relaxed when the **new vendor** is suggested by the top management, is a minority vendor, or is a personal friend of the buyer. (4) Vendors having a poor record of quality, delivery, and/or service are dropped from the bidders' list. Quoting consistently a higher price and not responding to RFQ in past were other factors mentioned for dropping a supplier. (5) A visit from a salesman seems to be a necessary condition for receiving an RFQ by a **new supplier**.

B. **Supplier** Selection to Award Contracts. Technical and commercial evaluation of the vendors' offers is conducted next. Technical evaluation consists of checking quotes if they meet company specifications.

Any deviations from specifications must be acceptable to the engineering/user department. Commercial evaluation consists of checking payment terms, price escalation, shipping cost, warranty, labor contract, etc. Once the vendors pass this initial screening, price becomes an important factor. The lowest bidder may not always get the business; however, the buyer must justify his decision if the lowest bidder is not selected.

When the item is purchased from multiple sources, price and past performance played a pivotal role in splitting the volume among **suppliers**.

The **new supplier** has to quote an attractive price (5 to 8% lower) compared to existing suppliers to get a piece of the company's business.

Summary. Two flow chart models developed from this research show that buyers use a combination of evaluation models. Although the supplier choice process seems complex, the decision rules used are simple, but are heavily influenced by precedence.